

Message Text

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22

ACTION EB-07

INFO OCT-01 AF-08 ARA-06 EUR-12 EA-07 NEA-10 ISO-00 FEA-01

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FM AMEMBASSY CARACAS

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INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS 214

AMEMBASSY LIBREVILLE

AMEMBASSY QUITO

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

AMEMBASSY VIANNA

USINT BAGHAD

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L CARACAS 5340

EO 11652 GDS

TAGS: ENRG OPEC VE

SUBJ: GOV MINES MINISTRY VIEW ON BALI OPEC MEETING.

1. HERNAN ANZOLA, GOV VICE MINISTER OF MINES AND
HYDROCARBONS, WAS UNUSUALLY FRANK IN ASSESSING EXPECTED
RESULTS OF FORTHCOMING OPEC MINISTERIAL MEETING IN BALI

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WITH EMBASSY PETROLEUM ATTACHE. ANZOLA SAID THAT VENEZUELA

HAS A SPECIAL PROBLEM WITH THE ALGERIAN LINEAR MODEL FOR PRICE DIFFERENTIALS WHICH IS SCHEDULED FOR DISCUSSION IN JAKARTA. UNDER THIS FORMULA, BACHAQUERO (17 API), A TYPICAL AND LARGE VOLUME VENEZUELAN HEAVY CRUDE, WOULD BE REQUIRED TO BE PRICED AT ABOUT 50 CENTS PER BARREL HIGHER THAN ITS CURRENT SELLING PRICE. THE FORMULA IS PREDICATED ON A MODERN REFINERY YIELD OF ABOUT 40 PERCENT NAPTHAS FROM THIS CRUDE GRADE, WHILE VENEZUELAN BACHAQUERO YIELDS LESS THAN 10 PERCENT NAPTHAS FROM DOMESTIC REFINERIES. THUS, IF THE GOV WERE TO ACCEPT THIS FORMULA, ITS MAJOR HEAVY CRUDE WOULD BECOME UNCOMPETITIVE IN WORLD MARKETS.

2. A GOV MINES OFFICIAL IS NOW IN ALGERIA ATTEMPTING TO EXPLAIN THIS PROBLEM. AT THE OPEC ECONOMIC COMMISSION MEETING CONVENING IN JAKARTA ON MAY 17, ANZOLA SAID THAT THE VENEZUELAN DELEGATION, HEADED BY JAIME FERNANDEZ, WILL ATTEMPT TO RESOLVE THIS AND OTHER ISSUES. IF NO AGREEMENT IS REACHED, THE QUESTION OF PRICE DIFFERENTIALS MAY NOT BE DISCUSSED AT THE MINISTERIAL MEETING. ANZOLA IS PESSIMISTIC. HE DOES NOT BELIEVE THE ARAB MEMBER COUNTRIES UNDERTAND, OR CARE ABOUT, THE COMPLICATED QUESTION OF DIFFERENTIALS. HIS PERSONAL OPINION IS THAT A COMPROMISE ON DIFFERENTIALS WILL NOT BE ACHIEVED.

3. ON THE QUESTION OF A PRICE INCREASE, ANZOLA BELIEVES THE MEMBERS ARE COMMITTED TO SOME UPWARD ADJUSTMENT, BUT THAT IT WILL NOT EXCEED FIVE PERCENT. HE DOES FEEL THAT MARKET CONDITIONS WOULD SUPPORT ANY LARGE PRICE INCREASE. ANZOLA RECALLED THAT, ALTHOUGH OPEC VOTED A TEN PERCENT PRICE INCREASE IN OCT 1975, THE REAL MARKET PRICE INCREASE WAS MUCH LESS.

4. COMMENT- THE CARRYOVER OF THE TAX STRUCTURE (AND RATES) FROM THE FORMER PRIVATE CONCESSIONAIRES TO THE NEW NATIONALIZED OPERATING COMPANIES RESULTED IN ALL FOURTEEN OF THESE COMPANIES POSTING FIRST QUARTER BOOKKEEPING LOSSES (WITH ALL THE REVENUE BEING REFLECTED IN THE HOLDING COMPANY'S BOOKS). THE OPERATING COMPANY LOSSES BECAME A POLITICAL ISSUE, AND HAS FORCED THE GOV TO PREPARE AN AMENDED TAX STRUCTURE
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FOR THESE COMPANIES TO ELIMINATE THE BOOKKEEPING LOSSES IN FUTURE QUARTERS. THE AMENDMENT WILL BE SUBMITTED FOR CONGRESSIONAL APPROVAL SHORTLY. ANZOLA STATED THAT THE GOV DOES NOT WANT TO ADOPT UNREALISTIC PRICE INCREASES WHICH MIGHT ONCE AGAIN ADVERSELY AFFECT THE OPERATING COMPANIES. THIS IS POSSIBLE AS LONG AS VENEZUELA RETAINS TAX EXPORT VALUES, WHICH HAS BEEN THE TRADITIONAL METHOD OF RELATING VENEZUELAN OIL PRICES TO THE OPEC REFERENCE

CRUDE. END COMMENT.
SHLAUDEMAM

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